

Message Text

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PAGE 01 SANTIA 06354 282156Z

72

ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 AGR-20

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 7009

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E.O. 11652: N/A

TAGS: ECON, CI

SUBJECT: HOLIDAY ECONOMIC WOES

REF: SANTIAGO 6236

1. SUMMARY. IN DECEMBER PRICES OF SOME IMPORTANT PRO-
DUCTS INCREASED OFFICIALLY, WHILE OTHERS EXPERIENCED PRICE
DECLINES. A FEW ORGANIZATIONS HAVE COMPLAINED ABOUT
INABILITY OF SOME CHILEANS TO LIVE ON PRESENT INCOME. GOC
IS ATTEMPTING TO ENSURE FREE COMPETITION THROUGH USE OF
INCREASED ENFORCEMENT POWERS. IT IS ALSO TRYING TO ENCOURAGE
LOCAL SAVINGS, WITHOUT MUCH SUCCESS SO FAR. END SUMMARY.

2. OFFICIAL RETAIL PRICES OF SOME IMPORTANT GOODS -- E.G.
CEMENT, PAPER AND COOKING OIL -- HAVE BEEN INCREASED IN
DECEMBER. PRODUCERS PRICES FOR WHEAT AND CORN HAVE ALSO
BEEN GIVEN CONSIDERABLE RISES. RECENT RENT INCREASES HAVE
BEEN SUBJECT OF SEVERAL PRESS STORIES. HOWEVER, PRICES OF SUCH
ITEMS AS EGGS, FRUITS, VEGETABLES, DRUGS, SHOES AND OTHER
CLOTHING HAVE DECLINED. HOLIDAY SALES APPEARED QUITE
SLOW AT BEGINNING OF SEASON, BUT THERE WAS RUSH OF SHOPPING
IN FINAL THREE DAYS BEFORE CHRISTMAS (STORES WERE OPEN
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PAGE 02 SANTIA 06354 282156Z

PART OF SUNDAY AS CONSUMERS LOOSENED PURSE STRINGS. THERE HAVE BEEN A FEW ORGANIZED COMPLAINTS ABOUT HIGH COST OF LIVING. PRESIDENT OF ONE EMPLOYEE FEDERATION CLAIMED THAT AVERAGE MONTHLY INCOME OF HIS MEMBERS WAS NOW ONE HALF OF SO-CALLED MINIMUM EXPENSES AND SAID THAT SUELDO VITAL (FORMER CONCEPT OF MINIMUM MONTHLY SALARY) WAS NOW REFERRED TO AS SUELDO MORTAL.

3. GOC HAS MOVED ON SEVERAL FRONTS TO DISCOURAGE MONOPOLISTIC PRACTICES. DIRINCO (PRICE CONTROL AGENCY) HAS REPORTEDLY ALREADY FINED 113 STORE OWNERS OVER 2 1/2 MILLION ESCUDOS FOR SELLING ABOVE FIXED PRICES AND HAS WARNED OF SEVERE PENALTIES FOR THOSE WHO REFUSE TO SELL MERCHANDISE IN STOCK. ANTIMONOPOLY LAW/DECREE WAS RECENTLY PROMULGATED PROVIDING FOR ELABORATE ADMINISTRATIVE APPARATUS TO INVESTIGATE AND FINE VIOLATIONS OF FREE COMPETITION.

4. GOVERNMENT IS ATTEMPTING TO ENCOURAGE LOCAL SAVINGS. SAVINGS AND LOAN ASSOCIATIONS HAVE RECENTLY BEEN ALLOWED TO HAVE SPECIAL SAVINGS ACCOUNTS WITH MORE FAVORABLE INTEREST RATES AND ALSO TO LOAN PART OF THEIR FUNDS TO CONSTRUCTION FIRMS HERE AS PART OF GOC PROGRAM TO STIMULATE HOUSING. CENTRAL BANK DATA SHOW, HOWEVER, THAT TOTAL DOMESTIC SAVINGS HAS DECLINED IN REAL TERMS BETWEEN SEPTEMBER AND MID-DECEMBER 1973. NO DOUBT THIS RESULTS PARTLY FROM ECONOMIC SQUEEZE MOST CHILEANS HAVE FELT DURING THIS PERIOD. IN ANOTHER DEVELOPMENT SOFOFA (NATIONAL MANUFACTURERS ASSOCIATION) PRESIDENT SAENZ HAS ANNOUNCED PLANS FOR CREATION OF INDUSTRIAL DEVELOPMENT BANK THAT WILL PROVIDE MEDIUM AND LONG TERM LOCAL CREDITS FOR INDUSTRIAL INVESTMENT.

5. AUSTERE 1974 BUDGET IS APPARENTLY ALMOST COMPLETED. AS PART OF GOC POLICY TO REDUCE PUBLIC SECTOR DEFICIT, THE APPROXIMATELY 500 FIRMS TAKEN OVER BY ALLENDE ADMINISTRATION MUST REPORTEDLY PAY BACK THE 180 BILLION ESCUDOS THEY OWE TO CENTRAL BANK. TOTAL MONEY SUPPLY CONTINUES TO INCREASE RATHER RAPIDLY BUT AT SLOWER RATE THAN INFLATION. BY MID-DECEMBER MONEY SUPPLY WAS 270 BILLION ESCUDOS, 317 PERCENT OVER ONE YEAR BEFORE, INCLUDING RISE OF ALMOST 100 BILLION ESCUDOS IN PAST THREE MONTHS.

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PAGE 03 SANTI 06354 282156Z

6. CURFEW (AS WELL AS HIGH PRICES) CONTINUE TO HURT HOTEL AND RESTAURANT BUSINESS. ASSOCIATION PRESIDENT HAS SAID CRITICAL SITUATION THREATENS THE LIVELIHOOD OF 15,000 WORKERS. EVEN BIM BAM BUM, WELL KNOWN SANTIAGO BURLESQUE HOUSE, IS CLOSING ITS DOORS AT END OF YEAR BECAUSE OF POOR ATTENDANCE.

7. COMMENT: FREE COMPETITION AND RELIANCE ON MARKET FORCES ARE NOT CONGENIAL NOTIONS FOR MOST CHILEANS, SO GOC MAY HAVE DIFFICULTY IN ENFORCING ANTI-MONOPOLY MEASURES. EVEN APART FROM EFFECT OF PRESENT LIQUIDITY SQUEEZE ON SAVINGS, PARSIMONY, IN ANY CASE, IS NOT PROMINENT CHILEAN HABIT. JANUARY 1974 WAGE INCREASE (REFTEL), HOWEVER, MAY STIMULATE LOCAL SAVINGS. PLANNED INDUSTRIAL DEVELOPMENT BANK MAY BE ELEMENT IN ALLEVIATING PROBLEM OF INADEQUATE CAPITAL MARKET HERE, WHICH HAS BEEN A MAJOR DETERRENT TO MORE RAPID ECONOMIC GROWTH.
THOMPSON

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